RATING REPORT

Shafi Lifestyle (Pvt.) Ltd

REPORT DATE:
March 6, 2025

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	**A-/A2**	**A-/A2**
Rating Date	*March 6, 2025*	*January 11, 2024*
Outlook/Rating Watch	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION	
Incorporated in 2009	**External auditors:** RSM Avais Hyder Liaquat Nauman Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Muhammad Haleem
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Naseem
Shafi Glucochem Pvt Ltd – 65.81%	
Mr. Amjad Hafeez – 7.63%	
Mr. Muhammad Naseem – 6.93%	

APPLICABLE METHODOLOGY(IES)
***Applicable Rating Criteria: Corporates**:* https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: https://docs.vis.com.pk/docs/VISRatingScales.pdf

Shafi Lifestyle (Private) Limited

OVERVIEW OF THE INSTITUTION	RATNG RATIONALE

Shafi Lifestyle (Pvt.) Limited *was incorporated in 2009. The Company was previously known as 'Aisha Sons' and was later renamed and converted into a private limited company. The Company's regional office is based in Karachi while its factory is located in Lahore.*

Shafi *group was formed by Mian Muhammad Shafi (Late), with his elder sons in 1940. The group includes companies such as Everfresh Farms, Muhammad Shafi Tanneries, Shafi Texcel, Shafi Energy, M/s. Gluco Chem, Shafi Lifestyle, and Shafi Foods.*

Company Profile:

Shafi Lifestyle (Pvt.) Limited ('SLPL' or 'the Company') was incorporated in 2009 as a private limited company. The main operations of the Company include manufacture and sale of leather products, specifically footwear. The registered office of the Company is located at Shafi House 35-A/3, Lalazar, M.T. Khan Road, Karachi Sindh while its factory is situated at 3 KM, Bulhar Road, off 22 KM Ferozpur Road, Rohi Nallah, Lahore, Punjab.

The Company's product mix includes footwear for men, women, and kids' section, which is exported to countries like Holland, Germany, Australia, USA, and Austria etc. The Company belongs to Shafi group and is a subsidiary of M/s. Shafi Gluco Chem (Pvt.) Limited, which owns 65.7% of its shareholdings. Other companies in the group includes Everfresh Farms, Muhammad Shafi Tanneries, Shafi Texcel, Shafi Energy, and Shafi Foods.

Operational Update: During FY24 the production capacity has declined as one production line was shut down temporarily due to subdued demand. Therefore, the production was lower for company's products. Resultantly, the capacity utilization has decreased to 84.7% from 90.3% in FY23.

	FY23	FY24
Installed Capacity (Pairs)	960,000	840,000
Actual Capacity (Pairs)	866,603	711,600
Capacity utilization	90.3%	84.7%

Key Rating Drivers:

Business risk profile is characterized by export-oriented nature and cyclicality from consumer preferences as well as changes in international economic trends.

The leather footwear sector is ascribed a medium business risk profile, marked by its export-oriented nature which shields it from significant local economic factors such as currency depreciation and resultant inflation. In FY24, the leather footwear sector exports declined by ~12.4% to USD 124.9 mln (FY23: USD 142.1 mln) and 7.6% volumetric decline was observed due to significant challenges like across the board inflation and subdued demand in export markets during this period.

Generally, demand within the sector is linked to the fashion industry. This reliance on fashion trends introduces a level of cyclicality risk, with consumer preferences susceptible to changes in the economic cycle.

Raw material dynamics further contribute to the risk profile. While leather, a major raw material, is primarily sourced locally, other materials like sole material and accessories are predominantly imported, exposing the sector to exchange rate and transfer risks. Foreign currency fluctuations may impact on production costs, but much of it can be transferred to export customers through increased selling prices.

Overall, subdued demand from customers, increased costs amid high inflation, the absence of rupee depreciation benefits, and the inability to pass on cost impacts to selling prices have collectively contributed to the decline in profitability. Going forward, sector performance is expected to face continuous challenges from rising gas tariffs, hike in electricity costs, and regional competition, particularly from, China and India, as well as economic health of key export markets such as USA, Europe and UK. However, currency depreciation, and GSP+ status is expected to support export demand.

Topline decreased as a result of subdued demand and stable exchange rate.

In FY24, the Company witnessed a 7.25% decline in its topline on the back of subdued demand for the Company's products and a stable USD/PKR whereas, the sales volume contracted by 25% on a YoY basis.

The Company's focus remains on export sales, which account for a robust 93.6% (FY23: 95.6%) of total sales in FY24. This strong export orientation helps mitigate the impact of macroeconomic volatility in Pakistan and supports the ability to command better pricing in international markets. While the Company has high client concentration, with the top two clients contributing approximately 78% (FY23: 80%) of export sales, the risk associated with this is mitigated through long-term relationships with these clients. Additionally, 59% of exports are directed towards the Netherlands, a key market that continues to offer growth potential and stability.

During FY24, gross margin reduced to 21.7% (FY23: 27.9%) on the back of lower volumetric sales amid subdued demand, hike in fuel & power prices, absence of rupee depreciation and no increase in selling prices. Furthermore, the operating expenses increased by 18.6% largely as a result of broader inflationary pressures prevalent in economy. Whereas, finance costs surged 48% to Rs. 114.4 m (FY23: 77.1 m) due to higher interest rates and higher utilization of short-term financing that translated into lower net margin of 3.2% (FY23: 12.7%) in FY24. As a result, net profit declined to Rs. 126 m (FY23: 535 m).

During 1HFY25, net sales reached Rs. 1.7b, with the gross margin slightly decreasing to 19%, resulting in a gross profit of Rs. 324.4m. Operating expenses and finance costs were contained at Rs. 296.5m and Rs. 40.0m, respectively, leading to a net margin of 0.9%. This resulted in a net profit of Rs. 15.7m. Looking ahead, the Company has secured a strong pipeline with export orders totaling Rs. 726.99m and local sales orders of Rs. 159.5m, ensuring continued business activity and growth through June 2025.

Looking ahead, the Company's top line is expected to remain influenced by the EUR/PKR exchange rate, the continuation of GSP+ status, and the economic health of the EU, as 100% of its exports are directed toward European clients. However, the bottom line is expected to benefit from the recent reduction in interest rates, along with the company's plan to settle commercial-rate loans and rely more on subsidized financing. Additionally, management anticipates a pickup in demand by the last quarter of FY25.

SLPL maintains an adequate liquidity profile as well as healthy coverage metrics despite lower profitability.

The Company has maintained an adequate liquidity profile with a current ratio of 1.23x (end-FY23: 1.36x) by end of FY24, the slight decline in current ratio observed was due to increase in payables to associates & utilization of internally generated funds for CAPEX. Moreover, the cash conversion cycle (CCC) has improved to 94 days (FY23: 123 days) on the back of better receivable collection period, which also bodes well for the liquidity profile of the Company. Similarly, SLPL has also historically maintained a healthy coverage profile although it has declined slightly in FY24 with debt service coverage ratio (DSCR) of 2.2x (FY23: 5.0x) in FY24. This fall in DSCR is largely attributed to lower funds from operations (FFO).

By end of 1HFY25 the liquidity position of the company improved slightly with current ratio at 1.25x (FY24: 1.23x), the improvement is largely attributed to reduction in trade payables and short-term borrowings due to lower working capital requirements.

Minor improvement in the Company's gearing and leverage on the back of increase in the equity base and reduction in borrowings.

In FY24, the company's capitalization metrics remained conservative and improved slightly with gearing and leverage ratios clocking in at 0.47x (end-FY23: 0.57x) and 1.18x (end-FY23: 1.20x), respectively. This marginal improvement is attributed primarily to the company's increased equity with the Company retaining its profits, reduction in long-term debt through regular repayments and decrease in short term borrowings as a result of lower working capital requirements due to lower demand for the Company's products.

By end of 1HFY25, the trend of improvement in capitalization profile continued as gearing and leverage were reported at 0.43x (end-FY24: 0.47x) and 1.10x (end-FY24: 1.18x) due to a reduction in short-term borrowings and trade payables as a result of lower working capital requirements. Going forward, improvement in topline and profitability along with maintenance of capitalization and coverage profile will remain important from the rating's perspective.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Shafi Lifestyle (Private) Limited
Sector	Leather Footwear
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
06/03/25	A-	A2	Stable	Reaffirmed
11/01/24	A-	A2	Stable	Reaffirmed
30/12/22	A-	A2	Stable	Upgrade
31/01/22	BBB+	A2	Positive	Maintained
26/08/20	BBB+	A2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mazhar Iqbal	Manager Finance	Feb-6, 2025